

Washington, DC 20405

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Dear Mr. Webster:

I am pleased to announce that the President has signed the permanent fiscal year 1988 continuing resolution which includes provisions converting the supply operations of the Federal Supply Service (FSS) from an appropriated funding mechanism to one of a full cost recovery method, or industrial funding.

We are convinced, as we were when I first wrote to you concerning this proposed legislation last February, that this full cost recovery approach affords advantages for the agencies FSS serves and for the Government as a whole. It relieves us of dependency upon an appropriation which has not always allowed us to adapt to the changing demands of the customers we serve.

Beginning February 1, 1988, a surcharge will be added to the prices charged for the goods supplied through the FSS stock (wholesale and retail) and special order programs. FSS will, thereby, recover the cost of contracting and item management including warehousing of stocked items. This funding mechanism affords us the ability to adjust to customer demand which translates into more responsive services to your agency.

Further, under industrial funding, FSS will make the transition from its status as a "mandatory" to a "preferred" source of supply. This heightens our sensitivity and dedication to keeping our pricing structure competitive, by achieving even deeper discounts as we contract for products, by streamlining operations for even greater efficiencies and economy, and by achieving and sustaining quality in the products and the supply services we provide. Competition with private sector sources, in quality, price, and timely service, will provide a self-perpetuating incentive to reduce the total cost of logistics services and thereby the total cost of the Government. Regulatory changes associated with this change are under development. It is important to note that these changes do not affect the status of the Federal Prison Industries or National Industries for the Blind or Severely Handicapped, Inc., which remain mandatory sources.

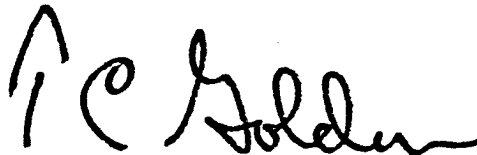
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FSS functions which are regulatory or not easily trackable to individual customer usage will continue to be funded by an appropriation. These are travel and transportation, transportation audits, personal property reutilization, surplus donation and excess property disposal, and the Federal Supply Schedule program. This we believe will address many of the concerns previously registered by several customer agencies.

I wish to thank you and those within your agency who have participated in the evolution of this legislation and in the planning essential to its successful implementation.

We appreciate and depend upon your continued support as we implement this more competitive and service-oriented means of providing supplies and services.

Sincerely,

A handwritten signature in dark ink, appearing to read 'T C Golden', with a stylized flourish at the end.

Terence C. Golden

The Honorable
William H. Webster
Director
Central Intelligence Agency
Washington, DC 20505